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On behalf of

The National Association of Housing and Redevelopment Officials

and

The National League of Cities

The National Association of Counties

The National Conference of Black Mayors

The Council of State Community Development Agencies

The National Association for County Community and Economic Development

The National Association of Local Housing Finance Agencies

The National Community Development Association

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Good morning, Mr. Chairman. I am Saul N. Ramirez, Jr. and I am the Executive Director of the National Association of Housing and Redevelopment Officials (NAHRO). NAHRO's members administer HUD programs such as Public Housing, Section 8, CDBG, and the HOME Program. NAHRO's membership includes over 18,000 individual members and associates, and nearly 3,300 agency members, including housing authorities, community development departments, and redevelopment agencies. For over 70 years, NAHRO has been a leading housing and community development advocate for the provision of adequate and affordable housing and strong, viable communities for all Americans—particularly those with low- and moderate-incomes.

Thank you for inviting NAHRO to testify on the Community Development Block Grant Formula. I am honored today to represent not only NAHRO, but also the other national organizations you see listed on the cover of our written testimony. On behalf of NAHRO's members and the members of these other organizations, let me first thank you, Mr. Chairman, and your staff for your advocacy on behalf of important federal policies, such as brownfields redevelopment and community and economic development, which impact America's cities. NAHRO especially appreciates the leadership you've shown in asking tough but necessary questions of the Administration regarding the President's proposal to eliminate the Community Development Block Grant program.

I want to recognize those organizations with whom we have worked closely in our ongoing effort to protect the CDBG program. The National Community Development Association (NCDA), the Council of State Community Development Agencies (COSCDA), the National Association for County Community and Economic Development (NACCED), LISC, and the Enterprise Foundation have all done great work on this issue. We are also grateful for the leadership of the National League of Cities, the U.S. Conference of Mayors, the National Association of Counties, and the National Conference of Black Mayors. As disturbing as the President's proposal was, the collaboration and camaraderie we've experienced with these other organizations (and with many members of Congress from both sides of the aisle) has served as a refreshing reminder of the good that comes from standing together for a worthy cause. And preserving CDBG is certainly a worthy cause.

It has also served as a reminder that there are better ways to examine important, long-standing federal programs than to call for their total elimination and replacement with new and untested initiatives. CDBG is an effective and successful program, but there is always room for improvement. That's why NAHRO, COSCDA, NCDA, NACCED, and the National Council of State Housing Agencies worked with HUD and OMB to design a new outcome-based performance measurement system to evaluate HUD's formula grant programs, including CDBG. Once implemented, this new system will generate the empirical, results-focused evidence we believe will demonstrate what we've always known to be true: CDBG works. I know you will be focusing on this topic in an upcoming hearing. I hope you will use that hearing as an opportunity to encourage the Department to begin implementation of this system as soon as possible.

Let me take a moment to share my personal perspective on CDBG. I served as the Mayor of Laredo, Texas, from 1990-1997. During my tenure as Mayor, I came to appreciate CDBG's role as one of the most powerful engines for economic growth as well as a catalyst for affordable housing, community development, and infrastructure improvements. I have also observed the program's successes from the federal vantage point, having served as the Assistant Secretary for Community Planning and Development and, later, as the Deputy Secretary of the Department of Housing and Urban Development. On my watch, the Department worked with communities and interest groups to improve the timely expenditure of CDBG funds. (An untimely grantee is one with more than 1.5 times its current grant in its line of credit.) Since that effort began, the number of untimely grantees has been reduced from over 300 to less than 50. That undertaking illustrated an important point: when stakeholders agree CDBG can be improved, interest groups and grantees are more than willing to come to the table with Congress and the Department to work toward responsible change.

As I mentioned, making the case for protecting CDBG has brought cities, counties, and states together. Introducing major changes to the CDBG allocation formula, no matter how well-intentioned, is an action guaranteed to divide America's communities. Is the CDBG formula in need of an "extreme makeover?" If by extreme makeover you mean an immediate and radical redistribution of funds, NAHRO and our partners would say no. We of course support the notion of a fair and equitable distribution of CDBG dollars, but I would urge you to proceed with caution in examining the issue of targeting CDBG funds in new and different ways. If Congress feels change is truly necessary, then we would hope that change could happen in a way that mitigates uncertainty and avoids sudden and substantial losses in funding.

If Congress is to decide whether change is needed, it seems reasonable that it would first judge how well the CDBG program, as currently structured, is performing. CDBG was not designed to be strictly an anti-poverty program. Indeed, the statute requires that at least 70% of all CDBG funds expended go toward activities benefiting low- *and* moderate-income persons. The reality is that communities are targeting funds much more aggressively than the statute requires. According to HUD's most recent accomplishment data, "Approximately 95 percent of funds expended by entitlement grantees and 96 percent of State CDBG funds expended were for activities that principally benefited low- and moderate-income persons." That is not a statistic one would associate with a program that is not sufficiently targeted to need.

There is another important point about CDBG's structure that needs to be made. For the purposes of the CDBG program, the threshold for low- and moderate-income is defined as 80% of area median income. A person considered low- or moderate-income in a so-called affluent community might not be qualify as low- or moderate-income in another community or state. We should not discriminate against low- and moderate-income persons simply because the place where they are struggling to make ends meet happens to be slightly more affluent, on average, than some other communities.

In previous studies on how the introduction of 1980 and 1990 decennial census data affected CDBG's ability to target funds to needy communities, "HUD determined that the data continued to target the funds to the neediest communities and recommended continuing the dual formula as specified in the statute.[i]" Similarly, in a 2002 report to the Committees on Appropriations, HUD concluded that "a little more than a quarter of all CDBG entitlement communities, i.e., those with the greatest needs as measured by the formula factors, receive nearly 75 percent of the CDBG funds available.[ii]" A May 1995 study by the Urban Institute, contracted by HUD's Office of Policy Development and Research, noted that most "grantees and the program, as a whole, have consistently exceeded the statutory 70 percent overall benefit requirement by a substantial margin.[iii]"

In its recent report[iv] on CDBG and performance measures, the National Academy of Public Administration considered OMB's PART review. On the subject of targeting, NAPA's report took issue with OMB's criticism of the supposed "weak targeting of funds by CDBG formula and by grantees to areas of greatest need." NAPA's report reminded readers that "there is no targeting requirement in the legislation. Making CDBG more categorical by concentrating and focusing investments to places seems to contradict the statute's intent."

We should strive for a CDBG formula that fairly distributes funding in a way that is sensitive to the actual needs of states and communities. HUD's formula study is an interesting jumping-off point for a conversation on targeting, and I'd like to share some of my thoughts on the report's conclusions, its methodology, and its implications for federal community development policy.

Even this newest study of the CDBG formula declares that "the current entitlement formula does continue to target to need. On average, the 10 percent of communities with the most need get four times larger per capita grants than the 10 percent of communities with the least need.[v]" Choosing to abandon a system that continues "to target to need" is not a decision that should be made lightly, especially when, as the study points out, that decision will "result in a significant redistribution of funds."

Our coalition partners have voiced concerns about moving too quickly to change the CDBG formula. For example, the 18,000 cities of the National League of Cities believe that CDBG is the most effective form of federal assistance currently available to local governments because it provides funding directly to over 1000 cities nationwide and allows local autonomy and flexibility. NLC believes as we do that CDBG is the most successful federal block grant and the model against which all future federal programs must be measured. Dramatically changing the formula structure in a swift manner would create uncertainty and inhibit CDBG's current ability to leverage billions of dollars of private investment in some of our poorest neighborhoods.

One of the regions that would be hit especially hard under all four alternatives presented in HUD's formula study is New England. NAHRO got in touch with the city manager and community development staff from a large New England city. We asked them to consider the impact each of these four formula alternatives would have on their local CDBG program. What they told us was striking:

Under Alternative 1, the least redistributive of the four alternatives, 4 out of every 10 scheduled and planned physical improvement projects would not go forward in this community. These are projects that involve repairing and rebuilding streets, sidewalks, parks, and playgrounds. Under the other three alternatives, 6 out of every 10 planned projects would not go through.

Under Alternative 1, 1 out of every 4 neighborhood facilities projects would not go forward. Under the other three alternatives, none of these projects, which fund critical improvements to facilities such as the YWCA and the Boys & Girls Club, would go forward. These facilities help communities meet the needs of low- and moderate-income individuals and families.

Under all four alternatives, up to half of the city's community policing centers would be closed, and up to 550 children would no longer b served by activities and programs at these centers. In addition, under Alternative 1, the city would have to decide to eliminate one of the following:

1) Funding to 8 childcare centers serving 500 families totaling 17,000 hours of child care services.
2) Funding for adolescent and family support services, i.e. homeless teenagers and case management for persons with HIV/AIDS. This equals services to 1,500 adolescents and 5,700 hours of care for persons with HIV/AIDS.
3) Services to homeless persons and senior citizens, including homeless meals programs, homeless healthcare and elderly transportation to medical appointments. This equals 195,000 meals served annually to homeless persons and 19,000 passenger miles traveled to medical appointments.

Under Alternatives 2, 3, or 4, this city would most likely have to eliminate two of those three.

Mr. Chairman, these kinds of hard choices would have to be made in communities throughout the nation. I note that Dayton (OH) would experience a substantial loss of CDBG dollars under each alternative. Under Alternative 2, for example, Dayton would experience a decline of 39%.

Kettering (OH) would also lose funding under all four alternatives, with losses ranging from 49% (Alt. 2) to 63% (Alt. 1). Furthermore, the Ohio state program, the program that distributes money to smaller, non-entitlement communities, would lose funding under all four alternatives. The total amount of CDBG dollars going to Ohio (all entitlement programs plus the state program) would decline under each of the four alternatives in the study, with losses ranging from 9% (Alt. 1) to 21% (Alt. 2).

Mr. Chairman, I would ask whether these kinds of losses "better reflect today's urban environment" as you wrote in your letter inviting me to testify. I wonder whether the needs of low- and moderate-income families and individuals in Dayton have been sufficiently addressed to the point that the City is prepared to absorb a 39% reduction in CDBG funding.

Ranking Member Clay, the City of St. Louis would also experience a substantial erosion of its CDBG allocation under each alternative, with losses ranging from 15% (Alt. 1) up to 50% (Alt. 2).

Vice Chairman Dent, the City of Bethlehem would also lose funding under all four alternatives, with losses ranging from 13% (Alt. 1) to 34% (Alt. 2). Easton would lose a substantial amount of funding under each alternative, with losses ranging from 24% (Alt. 1) to 50% (Alt 2). The total amount of CDBG funding going to the State of Pennsylvania (entitlements plus state program) would decline somewhere between 12% (Alt. 1) and 30% (Alt. 2)

Congressman Kanjorski, Scranton, PA would lose somewhere from 29% (Alt. 1) to 61% (Alt. 2) of its CDBG funding under these alternatives. Wilkes-Barre, PA would lose from 25% (Alt. 1) to 57% (Alt. 2) of its allocation.

These losses are illustrative of the kinds of sudden, dramatic funding declines that would occur in communities across the country. Adopting and immediately implementing any of the four alternatives outlined in the study will produce massive funding shifts. These kinds of shifts are tantamount to a major change in federal community development policy and must not be taken lightly. Simply by signaling an intention to move quickly on one of these alternatives, Congress could introduce tremendous uncertainty into the required Consolidated Planning process for communities across the nation.

Let me briefly highlight a few other points of interest within HUD's study. First of all, accepting the study's conclusions is dependent upon accepting the community development needs index as an accurate measure of need. The reader must also accept that per capita grant amounts are the best measure of whether communities with similar levels of need (as defined by the index) are receiving equitable levels of funding. These are the instruments the author chose to make comparisons across communities. While I would not argue that there is anything particularly objectionable about this methodology, I would point out that it is probably not the only approach one could take to examine the issue of whether funds are appropriately distributed.

Consider cost of living, which we all know varies from one community to the next. It makes sense that certain activities and services, including the provision of affordable housing, that benefit low- and moderate-income persons simply cost more to provide in high-cost areas. Alternative 3 reduces grants for communities that have higher per-capita incomes than other communities within the same metropolitan area, while increasing grants for those neighboring communities with lower per-capita incomes. This may make some intuitive sense at the macro-level, but per capita income does not always tell us the whole story about the unique challenges a community might face.

Many higher per-capita income communities may have pockets of need, and the costs associated with meeting these needs through activities benefiting low- and moderate-incomer persons could be quite high. It is assumed that many of these higher per-capita income communities have sufficient tax bases to find, if they so choose, additional funds to cover the loss of CDBG funds. However, many communities face state-imposed prohibitions against raising property taxes or levying local income taxes. Furthermore, many communities are already overly reliant on their residential tax base and face a shortage of taxable commercial property. And let us not forget that many communities with higher per-capita incomes already spend a significant amount of their own revenues on community and economic development.

In 1995, the CDBG needs indicator featured a housing-related factor that included renter-cost burden. The new study excluded renter-cost burden, even though the author points out that it has generally been “a good indicator of high housing costs.” The author excluded this factor because, in his words, “it has the side effect of especially targeting college towns” which “often have high housing costs because they are desirable places to live.” The author also points out that many college students are considered to be living in poverty, even though their parents support them financially. This has the effect of increasing the formula allocation to many college towns.

To correct for this “college town phenomenon,” HUD proposes using the number of persons in poverty living in a family or elderly household instead of the broader measure of the total number of persons in poverty. My staff recently spoke with Dr. Steve Barton, the Director of Housing for Berkeley, California, which is of course a well-known college town. Dr. Barton told us that the effort to lower the influence of the apparent poverty of college and university students on CDBG allocations is certainly reasonable. However, Dr. Barton also points out that the measure HUD selected discounts single non-elderly non-student persons living in poverty, especially homeless persons and persons living with disabilities. Dr. Barton wondered whether HUD might instead have considered taking a look not just at family and elderly household poverty, but also at single persons over the age of 25 who live alone in poverty. Aren’t these individuals also struggling to stay in high-cost communities that are “desirable places to live?” We all know that in many areas of the country, including many communities with distressed neighborhoods, median home prices and rents are extremely high.

Two weeks ago, a well-known governor presented CDBG funds to a community in his state. He said he supported the affordable housing project CDBG would fund because it would mean "people don't feel compelled to move out of communities because they cannot afford to live there. To me that is the single biggest challenge we face as a state.” There probably aren’t many governors who couldn’t point out communities in their own states that face a similar challenge.

The current formula structure allows the program to address a wide variety of community development needs, including needs associated with decaying, deteriorating areas. Let me make another point about the report’s methodology: Recall that the current dual formula structure was created to differentiate between communities who faced challenges associated with poverty (Formula A) and communities facing challenges associated with age and decline (Formula B). In developing the community development needs index for this most recent study of the formula, the author discovered that his factor analysis produced, for the first time, a single factor capturing both poverty and age and decline. This is an important difference from previous studies in which poverty and age and decline were captured under different factors.

In another departure from previous studies, the author was not able to incorporate changes in retail sales over 5 years, in manufacturing employment over 10 years, and in service employment over 10 years in the needs index. This is because this data is no longer available in the same format from the U.S. Census Bureau's Economic Census. In a recent briefing for interest groups, we asked HUD whether the inclusion of this data might have led to different results in the factor analysis. HUD could not guarantee that poverty and age and decline would have collapsed into a single factor had the Department been able to include this data from the Economic Census.

NAHRO understands that Congress is responsible to the American people for ensuring that federal programs, including CDBG, are producing results and performing as intended. Changing the CDBG formula will have serious consequences – economic, political, and otherwise. The pursuit of a more equitable system must be balanced by a desire to avoid the kinds of sudden and dramatic shifts that create uncertainty and undermine communities' abilities to improve the quality of life for their citizens. If Congress decides to pursue change, NAHRO believes that process should be initiated within the appropriate committee of jurisdiction. Furthermore, any consideration of change must involve a fully deliberative process that includes participation from local and state governments, public interest groups, and community development professionals.

In conclusion, under the current formula structure, the CDBG program continues to make a real and positive difference in communities across America. CDBG funding led to the creation or retention of more than 90,000 jobs in the last year alone. Thanks to CDBG, in 2004 over 130,000 rental units and single-family homes were rehabbed, 85,000 individuals received employment training, 1.5 million youth were served by after-school enrichment programs and other activities, and child care services were provided to 100,065 children in 205 communities across the country. CDBG also funded nearly 700 crime prevention and awareness programs.

In 2004, as I mentioned before, 95 percent of funds expended by entitlement grantees and 96 percent of state CDBG funds expended were for activities that principally benefited low- and moderate-income persons. Overall, a full half of persons directly benefiting from CDBG-assisted activities were minorities, including African Americans, Hispanics, Asians, or American Indians. Additionally, more than 11,000 Americans became homeowners last year thanks to CDBG funding.

These are some of the fruits of the current formula structure. These are the results of a program of which HUD Deputy Secretary Roy Bernardi last year said,

> "We must continue to support and build upon programs that work, those that have a proven record of flexibility and the ability to fit in with locally determined needs. CDBG is such a program and ranks among our nation's oldest and most successful programs. It continues to set the standard for all other block grant programs."

Programs should evolve over time, but those who oversee them should also build upon past successes and pay close attention to what is already working well. Once again, I would like to thank you for the opportunity to testify before you today. If NAHRO and the other interest groups can be of further assistance to the subcommittee in the future, please do not hesitate to call upon us. I look forward to answering any questions you might have.

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[i] U.S. Department of Housing and Urban Development, "Report to the Committees on Appropriations on the Targeting of Community Development Block Grant (CDBG) Funds to Assist Low- and Moderate-Income Persons," Feb 2002
[ii] Ibid.
[iii] Ibid.
[iv] National Academy of Public Administration, "Developing Performance Measures for the Community Development Block Grant," Feb 2005
[v] Todd Richardson, "CDBG Formula Targeting to Community Development Need," Feb 2005